

Enterprise Innovation and Networks Committee

EIN(2) 08-06(p.6)

Date: Wednesday 18 October 2006

Venue: Committee Room 3, Senedd, Cardiff Bay

Title: Small Business Rate Relief Scheme

Purpose of paper

1. The Welsh Assembly Government is currently consulting on a proposal to replace the rural rate relief scheme with a small business rate relief scheme for the whole of Wales on 1 April 2007.
2. Attached at Annex A is a copy of a paper presented to the Local Government and Public Services Committee on 21 September by the Minister for Local Government and Public Services setting out the proposals. A copy of the consultation document is attached at Annex B.

Action

3. The Committee is invited to submit its views on the consultation document.

Chris Gwyther
Chair

Annex A

Local Government and Public Services Committee

LGPS(2)-12-06(p.2)

Meeting date: Thursday 21 September 2006

Venue: Committee Room 2, Senedd, National Assembly for Wales

Title: Small Business Rate Relief Scheme

Purpose

1. To provide the Committee with an overview of the Welsh Assembly Government's proposals for business rate relief in Wales. The draft Regulations are being published on 14 September for consultation. Committee scrutiny of the draft Regulations is programmed for 23 November.

Recommendations

2. That the committee takes note of the Assembly Government's proposals for a Small Business Rate Relief Scheme.

Background

3. On 30 March I presented a paper (LGPS (2) –06-06 (p4)) which gave the background to the current arrangements for business rate relief in Wales and discussed the results of the consultation into proposals for providing rate relief in the future. You will recall that the need to review the current arrangements stemmed from the fact that the Rural Rate Relief scheme, which was first introduced in 1998, was extended in 2002 to complement the Rural Recovery Plan, which the Assembly Government implemented as consequence of the Foot and Mouth crisis. It was also appropriate to consider the need for a small business rate relief scheme. At the meeting on 30 March we discussed the responses to the consultation which very largely supported the view that the current rate relief for small business in Wales lacked sufficient focus now that the Rural Recovery Plan has been completed. In this context there was strong support for both options 3 and 4. The discussion in Committee centred on whether option 3 – to retain and reform Rural Rate Relief complemented by a Small Business Rate Relief Scheme, or option 4 - to abolish Rural Rate Relief and replace it with a Small Business Rate Relief Scheme, was the best solution for Wales.

Proposals

4. After careful consideration of all of the issues I have concluded that continuation of the Rural Rate Relief scheme in its current form is not the appropriate way forward. The eligibility rules were extended for a particular purpose, and that was to provide additional help during the foot and mouth crisis to complement the Rural Recovery Plan. The Rural Recovery Plan ended in 2004 and therefore the rationale for providing rural rate relief at current levels is no longer in place.

5. I have concluded that the best way forward is to develop a scheme in accordance with option 4 of the consultation. Therefore, it is my intention to replace the current scheme with an all-Wales Small Business Rate Relief Scheme that will benefit almost 50 per cent of all businesses in Wales (the current rural rate relief scheme only benefits 21 per cent of businesses). Individual local authorities keep information on the businesses that receive rate relief and as a consequence it is difficult to give precise information to make comparisons between the existing scheme and new proposals. However, Annex 1 attached to this Paper shows, as far as possible, a comparison between businesses eligible for relief under the current proposals and those estimated to be eligible for relief under the new proposals.

6. It has also been important for me to develop proposals that are affordable. The Small Business Rate Relief scheme in England is self-financing in that the business rates paid by medium and larger businesses fund the relief available to small businesses simply by paying a higher rate. In Wales we do not have sufficient numbers of larger businesses to have a self-financing scheme. As a consequence the scheme will be funded by the Welsh Assembly Government and will be delivered within the same cost envelope as currently expended under the existing rural rate relief scheme. It

will mean that many of the businesses currently receiving rural rate relief will continue to be eligible under the new scheme but some may not receive as much relief as they currently get under the enhanced rates following foot and mouth. Some may not get relief in the future. However, under this all Wales scheme thousands of small businesses that previously did not qualify will get relief.

7. Under the scheme all businesses with a rateable value up to ?4,999 (except for those specifically exempted) will receive rate relief. As part of the scheme it is planned to make special provision to give full relief to Post Offices whose rateable value is under ?9,000, and 50% relief to post offices with a rateable value between ?9,000 and ?11,999. This is particularly important and will mean that Post Offices having relief under the current rural rate relief scheme will continue to benefit under the new arrangements, and that this will be extended to include post offices in urban areas. Outline details of the proposals are at Annex 2 to this paper.

8. It had been my intention to provide additional relief for businesses that were able to achieve a Green Dragon environmental standard – possibly at Level 2. This would have been innovative and would have allowed Wales to give a strong lead in this area and would contribute to our duty on sustainable development. I am disappointed to say that unfortunately, the Assembly Government does not currently have the legislative powers to achieve this objective. This may be something a new Assembly Government will wish to address using Orders in Council under the Government of Wales Act 2006 and I would certainly envisage that urgent attention be given to obtaining the legislative powers to make this a possibility.

Next Steps

9. The majority of respondents asked that any new proposals should be brought into effect at the earliest opportunity and I therefore began consultation on draft regulations on 14 September to provide the legislative base for the new scheme. A timetable has been set out for progressing the regulations through the Assembly having consulted with the Chair the date for Committee's consideration is 23 November. My objective is that the new arrangements should be effective from 1 April 2007.

Compliance

10. Powers to introduce a Small Business Rate Relief Scheme are in section 61 of the Local Government Act 2003 which makes amendments to section 43 of the Local Government Finance Act 1988. The power to effectively abolish the Rural Rate Relief Scheme through removal of the rural settlement lists is contained in section 63 of the 2003 Act. A separate Commencement Order will be necessary to commence the powers in section 63, which make amendments to section 42A, 43 and 47 of the 1988 Act – such that certain provisions only have effect in relation to England.

Paragraphs 1 and 2(2) of schedule 9 to the 1988 Act provide for the Assembly to make and amend regulations concerning the need for billing authorities to serve demand notices and, amongst other things, their content.

Paragraph 4 of schedule 1 to the 1988 Act permits the Assembly to make regulations containing rules

for the calculation of an amount for a chargeable financial year in relation to each billing authority (i.e. concerning the contribution regulations).

Section 47(8) provides that the Assembly may make regulations concerning the notices to be given by billing authorities to ratepayers

Financial Implications

11. The new Small Business Rate Relief Scheme can be managed within the cost envelope of the existing Rural Rate Relief Scheme. Therefore it is not expected to have additional financial implications for the Assembly Government.

Cross Cutting Themes

12. The provision of a rate relief scheme to small businesses in Wales is an essential part of the Assembly Government's social policy, particularly to ensure that businesses are sustainable in deprived communities. By extending rate relief to all parts of Wales means that small businesses in even poorest communities will get help to enable them to stay in business where they are most needed. The provision of full rate relief to Post Offices which are above the standard threshold for Small Business Rate Relief will be a major contribution to the Assembly Government's policy of keeping Post Offices open.

13. A Small Business Rate Relief scheme covering every corner of Wales will make a significant contribution to ensuring businesses can remain viable in all communities. It had been my intention to provide additional relief for businesses that were able to achieve a Green Dragon environmental standard – possibly at Level 2. This would have been innovative and would have allowed the Assembly Government to give a strong lead in this area. Unfortunately we do not currently have the legislative powers to achieve this objective. This may be something a new Assembly Government will wish to address using Orders in Council under the Government of Wales Act 2006.

Action for Committee

14. At this stage the Committee is invited to note the contents of this paper. As set out above I will bring the draft regulations to Committee on 23 November 2006.

Sue Essex AM
Minister for Local Government and Public Services

Policy Contact: David Fletcher, Local Government Finance Division, tel 029 2082 5013;
Paul Harrison, Local Government Finance Division, tel 029 2082 5307

Annex 1

UA	Businesses with RV Under ?5k* 2006	Number Businesses Receiving RRR 2004 – 2005*	Businesses Eligible SBR 2006+	Net change
Anglesey	1,757	1,267	1,712	445
Blaenau Gwent	1,311	29	1,263	1,234
Bridgend	1,491	147	1,435	1,288
Caerphilly	2,408	151	2,270	2,119
Cardiff	3,717	60	2,991	2,931
Carmarthenshire	3,704	2,726	3,480	754
Ceredigion	1,809	1,704	1,737	33
Conwy	2,657	2,164	2,520	356
Denbighshire	2,178	372	2,087	1,715
Flintshire	2,251	1,308	2,166	858
Gwynedd	4,279	4,290	3,980	- 310
Merthyr Tydfil	903	5	850	845
Monmouth	1,309	172	1,255	1,083
Neath	2,062	141	1,971	1,830

Newport	1,869	53	1,691	1,638
Pembrokeshire	3,771	2,128	3,599	1,471
Powys	3,926	2,503	3,774	1,271
Rhondda C T	3,218	13	3,096	3,083
Swansea	2,900	219	2,578	2,359
Torfaen	1,217	87	1,190	1,103
Vale of Glamorgan	1,485	327	1,410	1,083
Wrexham	1,900	1,498	1,817	319
Total Wales	52,122	21,364	48,872	27,508

*These are based on numbers of businesses receiving rural rate relief in 2004 -5 provided by local authorities, and numbers of businesses in Wales, on 31st March 2006 provided by the VOA.

+ Some of the businesses counted as being eligible for the new scheme may be receiving other types of mandatory relief, so may not in fact receive this. Numbers are not available.

Annex 2

Summary of Scheme

It is an all Wales scheme, replacing the current Rural Rate Relief Scheme.

Eligible businesses* with a rateable value of under ?2k will receive an automatic 50% discount off their rates, and businesses with a rateable value between ?2k and ?4,999 will receive a 25% discount. This will be funded by the Assembly.

Post offices with a rateable value of less than ?9k will be exempted from paying business rates and

post offices with a rateable value between ?9k and ?11,999k will receive 50% relief. This will be funded by the Assembly.

Where possible the relief will be applied automatically to Post Offices, but in some instances where it is not apparent from the rating list that a business is a post office, an application for relief may be necessary.

* Businesses not eligible to benefit from this scheme include those entitled to other types of mandatory relief, advertising rights (e.g. billboards), beach huts, communication stations (these include mobile phone masts), car parks and car spaces and sewage works.

Annex B

Assembly Government Consultation on Proposals for an all Wales Small Business Rate Relief Scheme.

The Welsh Assembly Government is consulting on a proposal to replace the rural rate relief scheme with a small business rate relief scheme for the whole of Wales on 1st April 2007. This will provide rates relief of 50% for businesses with a rateable value under ?2000, and 25% for businesses with a rateable value between ?2,000 and ?4,999.

In addition there will be enhanced rate relief for Post Offices in all parts of Wales. Post offices with a rateable value under ?9,000 will receive 100% relief, and those with a rateable value between ?9,000 and ?11,999 will receive 50% relief.

The relief will be applied automatically to rate bills – there will be no need to apply.

This will be entirely funded by the Assembly Government unlike the rural rate relief scheme which required a contribution from local authorities..

In addition to the small business rate relief scheme, many other types of relief will remain available and not be affected by the new scheme. These include charitable occupations, community amateur sports clubs, and non- profit making organisations.

Advertising rights, beach huts, communication stations and car parks and spaces will not be eligible for relief.

We are inviting your comments on the proposals.

The National Assembly for Wales intends to publish the responses to this document.

Normally, the name and address (or part of the address) of its author are published along with the response, as this gives credibility to the consultation exercise. If you do not wish to be identified as the author of your response, please state this expressly in writing to us.

Please send your responses to:

LGF1consultations@wales.gsi.gov.uk

Or

Paul Harrison
Local Government Finance Division
Welsh Assembly Government
Cathays Park
Cardiff
CF10 3NQ

(Telephone 02920 82 5307)

The Closing Date for responses is Friday 27 October 2006.

Should you have any queries, please use the contact details above.

Reasons for Introducing the Scheme

- It is transparent, simple to understand and much easier to administer than the current rural rate relief scheme and the schemes in England and Scotland. Local authorities will no longer have to maintain lists of rural settlement areas, and there will be one standard business rate multiplier and relief scheme across Wales.
- It is fair, consistent, and easy to understand and implement.
- Because rateable values tend to be lower in the poorer areas of Wales, the focus on smaller businesses and smaller Post Offices will be of particular benefit to poorer areas, be they urban or rural. .
- The smallest businesses and Post Offices will receive the highest percentage of relief.
- It will benefit almost half of all businesses in Wales, as opposed to the 21 per cent of businesses that benefit from the current scheme. This is not a cost saving measure – the costs of the new scheme are estimated to be similar to that of the one it replaces.

The continuation of the Rural Rate Relief scheme in its current form is no longer defensible. It was established in 1998, and extended very substantially in 2002 to provide additional help during the foot and mouth crisis to complement the Rural Recovery Plan. The Rural Recovery Plan ended in 2004 and therefore the rationale for providing rural rate relief at current levels is no longer in place. The costs of the present relief scheme have risen from ?0.48 million in 2001 - 2002, to ?17.5 million in 2004 – 2005.

The provision of a rate relief scheme to small businesses in Wales is an essential part of the Assembly Government's social policy, particularly to ensure that businesses are sustainable in deprived communities. By extending rate relief to all parts of Wales small businesses in even poorest

communities will get help to enable them to stay in business where they are most needed. The enhanced provision of rate relief to Post Offices will be a major contribution to the Assembly Government's policy of keeping Post Offices open.

Rates Relief is not a driver for economic investment because the Assembly Government is able to use other mechanisms to achieve that objective. Nevertheless, this scheme, covering every corner of Wales will make a significant contribution to ensuring businesses can remain viable in all communities.

Background

The Rural Rate Relief Scheme was introduced in 1998. It was available to the sole post office or general store in a qualifying rural settlement with a Rateable Value of ?5,000 or less, who automatically qualify for 50% mandatory relief. Local authorities could then top up the mandatory relief with a further 50% discretionary relief. Whilst not eligible for mandatory relief, discretionary relief was also available to businesses with a rateable value up to ?10,000. To qualify for relief the shop or post office has to be the sole shop, this is set in primary legislation.

In April 2002 the Assembly

- Extended the scope of the Rural Rate Relief scheme. The Non Domestic Rating (Rural Rate Relief) (Wales) Order 2002 came into force on 1 April 2002. It increased the rateable value thresholds for 50% mandatory relief for sole post offices or general stores from ?5,000 to ?6,000, Councils have discretion to top-up the mandatory relief up to 100%. They also have discretion to grant relief to any other rural business with a rateable value of less than ?12,000 if it provides a vital service to the local community.
Extended the scheme to rural pubs and petrol stations with a RV of ?9,000 or less. They now qualify for an automatic 50% mandatory relief,
- Increased RV thresholds for discretionary relief to businesses that supply a vital role to the community to ?12,000 at a level up to 100%.
- The Assembly Government meets 100% of mandatory relief and 90% of discretionary relief from the non-domestic rating pool. The remainder is met by local councils which they raise locally from the council tax.

In 2005 the Assembly Government commissioned research into the effectiveness of the existing system of business relief in Wales, and undertook a public consultation on the future of business rates relief earlier this year. It concluded that the current rural relief was neither an equitable or effective use of public money, and that it should be replaced with an all Wales scheme.

Legislation

The Local Government Act 2003 provides the Assembly Government with the power to set up a relief scheme for small businesses in Wales. In order to do this, the Assembly government has had to introduce the following Regulations and Order. (Links to the draft regs will be inserted under each title)

- The Non-Domestic Rating (Small Business Relief) (Wales) Order 2006
- The Local Government Act 2003 (Commencement No 1 and Savings) (Wales) Order 2006.
- The Non-Domestic Rating (Demand Notices and Discretionary Relief) (Wales) (Amendment) Regulations 2006
- The Non-Domestic Rating Contributions (Wales) (Amendment) Regulations 2006